

IMPACT OF TRADE LIBERALIZATION ON INVESTMENT: The Adjustment Process

Prepared by: Department of External Affairs

Complete study available

Description

This paper, and a companion piece on survey evidence, estimated the nature of changes in investment patterns by referring to studies on the nature of the adjustment process and to surveys dealing with investment decisions at the individual firm level.

Highlights

National adjustments within the European Community after the 1958 Treaty of Rome were so much lower than expected that it was decided in 1960 to accelerate tariff reductions from 10% to 20% per year and to eliminate all quotas by 1961.

A major empirical analysis of Canadian industry reaction to the most recent tariff cuts under the GATT shows none of the effects predicted by the "deindustrialization" argument. Both Canadian imports and exports increased, and no industry experienced major declines.

Surveys conducted by the Conference Board of Canada and the Department found that the majority of firms surveyed did not consider trade barriers as a governing factor on future investment decisions.